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Report of the Executive Director on the implementation of the recommendations of the Board of Auditors for the biennium 2000-2001*

Summary

The present report provides the status of the implementation by the United Nations Office for Project Services (UNOPS) of the recommendations of the Board of Auditors contained in document DP/2002/CRP.13 presented to the Executive Board at its annual session 2002. Two specific recommendations that have been implemented for the second regular session 2002, as requested by the Executive Board, are contained as addenda to the present report: DP/2002/35/Add.1 on the UNOPS action plan on savings from projected staff cuts and DP/2002/35/Add.2 on the UNOPS contingency plan with regard to the operational reserve. This report has been reviewed by the Management Coordination Committee.

The Executive Board may wish to take note of the present report (DP/2002/35).

I. Introduction

1. The present report is submitted pursuant to Executive Board decision 2002/13 of 27 June 2002, and specifically paragraph 18, wherein the Executive Board requested that the United Nations Office for Project Services (UNOPS) implement the recommendations of the Board of Auditors and report on its implementation plan and progress to the Executive Board at its second regular session 2002. It is to be noted that the signed Report of the Board of Auditors was distributed to members of the Executive Board, at its request, as document DP/2002/CRP.13 at the annual session 2002. The report of the Board of Auditors is normally discussed at the first regular session of the year following the issuance of the report.

2. The status of the implementation of the recommendations of the Board of Auditors is contained in the annex to the present report.

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

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3. In its decision 2002/13, the Executive Board also requested that UNOPS provide at the second regular session 2002 two plans recommended by the Board of Auditors. Document DP/2002/35/Add.1 provides an action plan on savings from projected staff cuts in 2002, while document DP/2002/35/Add.2 provides a contingency plan to address measures to be taken in the event that the operational reserve is unable to absorb possible deficits in the biennium 2002-2003.

II. Status of the implementation of the recommendations of the Board of Auditors

4. The report of the Board of Auditors includes 18 recommendations, of which 15 concern financial issues and three management issues. The reasons for the UNOPS agreement with 16 of the recommendations and its disagreement with two recommendations are contained in the annex to the present document. As of the date of the present report, UNOPS has completed implementation of 10 of the 16 agreed recommendations.

5. The majority of the recommendations concern the establishment and monitoring of targets and business variables that lead to the UNOPS business planning and budgeting exercise. The Executive Director is appreciative of the assistance of the Board of Auditors in this important area. He agrees that improvements are critical if UNOPS is to respond better to the continuing need for its service to the United Nations system of organizations in a cost-effective manner, as expressed by the Secretary-General in his note to the Executive Board at its first regular session 2002 (DP/2002/CRP.5).

Annex

A. Financial issues

6. *Recommendation 1.* UNOPS should exercise caution in its budgetary assumptions and income projections to ensure that realistic targets are established (paragraph 22).

7. *Status.* UNOPS has completed the implementation of the recommendation. In early 2002, UNOPS developed a new business planning methodology in response to the 2001 income shortfall that it experienced. The methodology utilized conservative and prudent delivery and income projections that in turn determined the 2002 level of the administrative expenditure approved by the Executive Board at its annual session 2002. Based on a rigorous review of the project portfolio, a detailed analysis was carried out to distinguish between guaranteed delivery, hard delivery and soft delivery. The exercise resulted in a project delivery target of $503 million and an income and administrative budget of $44 million. Consistent with the achievements reported by the Executive Director at the annual session 2002 of the Executive Board, cumulative delivery and income, as of 31 July 2002, are ahead of the 2001 levels and the 2002 targets while administrative expenditure is in line with the pro-rated annual amount for end July. UNOPS, therefore, expects to match or exceed the overall estimated income for 2002. The Deputy Executive Director/Director of Operations is responsible for these ongoing financial management practices.

8. *Recommendation 2.* UNOPS should (a) continue to review its medium-term strategy in a comprehensive manner, including such elements as an analysis of the variables related to business from UNDP with a view to aligning its project delivery approach; and (b) embark on a strategy to diversify further its client base within the United Nations system (paragraph 26).

9. *Status.* For the short and medium term, UNOPS will continue to carry out periodic analysis of the variables related to various clients, including UNDP, in the framework of its annual business planning and budget exercises.

Likewise, UNOPS will continue to pursue its strategy to diversify its client base within the United Nations system, especially in connection with the recommendation made by the Secretary-General to the entities in the system to use UNOPS services on a broader scale. In this context, UNOPS will pay particular attention to: (a) continuing its efforts to remain cost-effective; and (b) concentrating its diversification strategy on specialized agencies of the United Nations system, given the large long-term potential existing among them. The Executive Director is responsible for this ongoing activity.

10. *Recommendation 3.* UNOPS should evaluate the basis and calculation of the cost of services to ensure that all costs are identified and recovered and that the piloted system addresses all shortcomings identified in the Project Management Office workload system (paragraph 32).

11. *Status.* As the Board of Auditors has noted, a new system of calculating fee costs has been piloted. The new fee calculation system is designed to ensure that all costs of project services are properly identified, thereby enabling UNOPS to estimate better the income from clients needed to cover full project costs. The Deputy Executive Director/Director of Operations is responsible for this activity. UNOPS hopes to implement the new system throughout the organization in 2003, subject to available budgetary resources.

12. *Recommendation 4.* UNOPS should evaluate its procedures for controlling costs with a view to meeting project delivery needs while ensuring flexibility to adapt to increases in the level of service delivery (paragraph 39).

13. *Status.* The implementation of this recommendation has been completed. As recommended by the Board of Auditors, UNOPS is monitoring its administrative costs on a regular basis with the continuing objective of achieving a balanced budget by the end of 2002. The Executive Director has established an Implementation Group to assist him in monitoring the implementation of the 2002 budget consolidation exercise. The Group reviews and endorses major changes in costs that inevitably emerge during the course of the year as a result of unforeseen opportunities or obstacles in project delivery. The Executive Director is responsible for this ongoing activity.

14. *Recommendation 5.* UNOPS should prepare budgets and revisions thereto on a basis which is more in line with realistic project delivery (paragraph 43).

15. *Status.* The implementation of this recommendation has been completed. At the end of June 2002, UNOPS established a new mechanism for a thorough mid-year major review of the delivery and income estimates at the level of operations divisions. The review went into greater depth and analysis than the monthly delivery monitoring exercise that is regularly performed. The overall delivery and income, as of 30 June 2002 (also as of 31 July 2002, as explained in paragraph 1), continues to be on track for the achievement of the annual delivery and income targets approved by the Executive Board. There have been, however, some changes in the rate of delivery target achievements of some divisions, which has led to mid-year division level adjustments in both income and cost in order for the overall estimated income for 2002 to be matched or exceeded. The Deputy Executive Director/Director of Operations is responsible for this ongoing activity.

16. *Recommendation 6.* UNOPS should continuously monitor actual performance against clearly defined targets and assess the specific methods to restore the operational reserve to its required level. The Board further recommends that UNOPS should communicate such performance and measures taken to the Executive Board (paragraph 47).

17. *Status.* The implementation of this recommendation has been completed. UNOPS continues to monitor, on a monthly basis, actual performance of delivery, income and administrative expenditures against the 2002 business plan targets that were subsequently approved by the Executive Board at its annual session 2002. These performance reports and results will also be reported to the Executive Board at its second regular session 2002 as

was done at the annual session. By ensuring a balanced budget by the end of 2002 and an operating surplus in 2003, UNOPS plans to reverse the decline in the operational reserve that has occurred in recent years and begin its restoration. The Executive Director is responsible for this ongoing activity.

18. *Recommendation 7.* While the Board recognizes the efforts made by UNOPS to review unliquidated obligations (ULOs), it recommends that UNOPS should conduct more regular reviews of all ULOs in a timely manner (paragraph 49).

19. *Status.* The implementation of this recommendation has been completed. Balances of ULOs for the UNOPS account dealing with the administrative budget are reviewed systematically on a quarterly basis by the division chiefs concerned. This review is made in coordination with the Division for Finance, Budget and Administration and appropriate adjustments are made.

20. *Recommendation 8.* UNOPS should: (a) compute the full costs incurred in respect of services to the International Fund for Agricultural Development (IFAD) to determine the feasibility of this service line; and (b) disclose the full IFAD costs in schedule 2 to the financial statements (paragraph 51).

21. *Status.* UNOPS is undertaking a detailed review of its cost of services for the IFAD programme to ascertain that its costs continue to be fully covered by the management fees received. UNOPS has notified IFAD senior management of this exercise and the need for an adjustment of the management fee should the exercise reveal that UNOPS costs are not fully covered. The inclusion of parts of the IFAD costs in schedule 2 to the UNOPS financial statements, those related to travel and consultants, was recommended in previous management letters and reports of the Board of Auditors. UNOPS recognizes that such partial disclosure has led to the impression that the full costs of the services to IFAD are not fully recovered. Since, in schedule 2, furthermore, it does not disclose specific costs attributable to any of its United Nations clients, UNOPS has decided to discontinue the practice of disclosing partial costs attributable to the IFAD programme in its financial statements. The Deputy Executive Director/Director of Operations is responsible for the management fee review to be completed by the end of the third quarter 2002.

22. *Recommendation 9.* UNOPS should, in conjunction with the United Nations and its funds, programmes and specialized agencies, review the funding mechanism and targets for end-of-service benefits. The Board considers that UNOPS may need to expedite its consideration of funding the end-of-service liabilities given its unique funding principles of UNOPS (paragraph 53).

23. *Status.* Following a request of the Advisory Committee on Administrative and Budgetary Questions (ACABQ), the United Nations Secretariat is preparing a report on the long-term implications and impact of the growth in the liability of the organization for after-service health benefits that will be submitted to the General Assembly at its 57th session. UNOPS has participated in a recent joint study to develop estimates of the after-service health liabilities, which is the most significant of all after-service liabilities. The report on this study was received recently and UNOPS is currently reviewing it and considering funding implications. It is expected that a course of action will be proposed by the end of the second quarter 2003. The Executive Director is responsible for this activity.

24. *Recommendation 10.* UNOPS should consider presenting to the Executive Board for approval variable budgets based on several levels of activity, clearly identifying the most likely level of activity (paragraph 59).

25. *Status.* UNOPS does not agree with this recommendation. UNOPS does prepare and evaluate, together with the Management Coordination Committee (MCC) working group, and the MCC, variable budgets that are based on various assumptions and operational options. It is only the most likely budget scenario, as agreed by the UNOPS Executive Director and the MCC, that is presented to ACABQ and the Executive Board.

26. *Recommendation 11.* UNOPS should continue to monitor closely the rate of project income and to re-evaluate any assumptions and overall project income strategy and policy (paragraph 62).

27. *Status.* The implementation of this recommendation has been completed. UNOPS agrees with the Board of Auditors that project income rates, which over the last few years have been under considerable downward pressure, have a major impact on the UNOPS self-financing imperative and the rate of buildup of its operational reserve. UNOPS will continue to monitor this important business parameter and continue to negotiate with clients on an ongoing basis. The Deputy Executive Director/Director of Operations is responsible for this ongoing activity.

28. *Recommendation 12.* A clear and definite action plan should be compiled on how, where and when savings from staff cuts will be made and monitored. All costs should be closely monitored and a revised submission made to MCC in order to obtain approval should it become evident that the required cap of administrative expenditure will be exceeded (paragraph 67).

29. *Status.* The action plan has been completed and is contained in document DP/2002/35/Add.1. The action plan has been submitted to the MCC and is monitored by UNOPS management on a regular basis.

30. *Recommendation 13.* UNOPS should intensify it efforts to attain and make provisions for all possible and foreseeable expenditure in respect of information and communications technology (ICT) both in the 2002 budget and beyond. The specific effects of a new computer system on accurate financial reporting should be considered rather urgently (paragraph 73).

31. *Status.* The implementation of this recommendation has been completed. UNOPS has included in the 2002 and 2003 budgets all currently foreseeable budget costs relating to ICT including provisions for its possible participation in the UNDP Enterprise Resource Planning (ERP). UNDP has only started implementation of the ERP in recent months and provided UNOPS in August 2002 broad estimates of UNOPS costs that are presently under review along with other possible options. The Chief Information Officer is responsible for this ongoing activity.

32. *Recommendation 14.* UNOPS should prepare a contingency plan, to be submitted to the Executive Board for approval, addressing measures to be taken in the event that the operational reserve is unable to absorb possible deficits (paragraph 77).

33. *Status.* The contingency plan has been prepared and is contained in document DP/2002/35/Add.2.

34. *Recommendation 15.* UNOPS should consider expanding the use of junior professional officers (JPOs) as a cost-effective mechanism, especially in these times of financial constraints (paragraph 79).

35. *Status.* UNOPS does not agree with this recommendation. UNOPS complies fully with the objectives of sponsoring Governments when it comes to the assignment of junior professional officers, be it for the purpose of simply accruing international public-sector experience or for the grooming of junior international civil servants for long-term careers with the United Nations system. In keeping with this spirit, UNOPS does not view JPOs as free labour but rather as a valuable investment, and possibly an element of succession planning for the organization, and thus assumes responsibility for training. UNOPS has taken a long-term commitment in the case of certain JPOs who were assigned to managing project portfolios and who, by the end of their JPO term, had developed a portfolio large enough to sustain their individual cost to the organization.

B. Management issues

36. *Recommendation 16.* The agreements between UNOPS and UNDP should be finalized expeditiously in order to regulate the functions of central services received from UNDP and should include the respective functions, responsibilities and cost structures between UNOPS and UNDP. Furthermore, the Board recommends that a service-level agreement be concluded for human resources (paragraph 87).

37. *Status.* UNOPS continues to negotiate an agreement to cover services outsourced to UNDP with emphasis on a clear division of labour. While this initiative is considered an ongoing process, which will always require monitoring and adjustment, the possibility of UNOPS directly handling certain functions in the area of human resources will simplify the service level requirements and generally advance the conclusion of an agreement. The Assistant Director, Finance, Budget and Administration, is responsible for this activity.

38. *Recommendation 17.* UNOPS should arrange for internal oversight coverage of financial procedures, controls and data (paragraph 90).

39. *Status.* The implementation of this recommendation has been completed. UNOPS has incorporated coverage of financial procedures, controls and data into the 2002 work plan for its internal auditors. The Assistant Director, Division for Legal and Procurement Support, is responsible for this activity.

40. *Recommendation 18.* UNOPS should: (a) compile a short and long-term ICT strategic plan for the deployment of ICT, which should be updated on a continuous basis; and (b) develop formally documented and approved procedures or guidelines on aspects such as security, disaster-recovery planning, backups amd system development (paragraph 92).

41. *Status.* UNOPS will continue to develop and review its short and long-term ICT strategy. Systems procedures such as disaster-recovery planning, systems backup and restore, and network security are being developed. As the documents are completed and tested, they will be reviewed and approved to become the official document for systems guidelines and procedures. They will be kept updated to reflect the requirements and changes of the systems. The Chief Information Officer is responsible for this area, with planned completion scheduled for the end of the fourth quarter 2002 of the strategic plan and procedures for disaster-recovery planning, systems backup and restoration, and network security.

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Action plan on savings from projected staff cuts*

I. Introduction

1. The present document has been prepared in response to Executive Board decision 2002/13 of 27 June 2002, paragraph 14, and is an integral part of the implementation of the recommendations of the Board of Auditors for the biennium 2000-2001 (paragraph 67), as presented to the Executive Board at its annual session 2002. The document outlines the procedures applied by the United Nations Office for Project Services (UNOPS) in the re-dimensioning of its human resources during the 2002 UNOPS budgetary reduction exercise. It contains information that satisfies the conditions set by the Executive Board, i.e., that United Nations Staff Regulations and Rules have been complied with and will continue to be complied with in any future exercises of similar nature, should there be a need to further generate savings from personnel cuts.

II. Planning and implementation of the personnel cuts

2. As already reported to the Executive Board at its annual session 2002 in the ad hoc submission of the revised budget estimates for 2002 (DP/2002/CRP.10), actions taken by UNOPS to generate savings from personnel cuts stemmed from the outcome of a series of management reviews, validated by a special business review and planning process put in place to meet the challenges of 2002.

3. The Executive Director established and chaired an Executive Group to assist him in appropriately re-dimensioning the UNOPS budget for 2002 in light of the expected income for the year.

4. The Executive Group was charged with and committed to closing the income-expenditure gap for 2002. Following a business-driven approach, the Executive Group reviewed the work programmes of operations and support divisions and developed criteria that would help to concentrate resources to: (a) contribute directly and immediately to delivery and income generation; (b) maintain the minimum corporate support necessary for control and oversight; and (c) establish a framework for a sustainable UNOPS in 2003 and beyond.

In applying the above criteria, the Executive Group focused on the elimination, consolidation or relocation of functions, as well as a reduction in the total work force.

5. The Human Relations Task Force was entrusted with the implementation of the decisions of the Executive Group as they affected personnel. The main tasks of the Human Relations Task Force were as

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follows: (a) facilitate implementation of the human resources measures emanating from the Executive Group report and (b) ensure compliance with the provisions of the United Nations Staff Regulations and Rules. As a result of its work, the Task Force was able to identify individuals who would be affected by the implementation of Executive Group decisions and to determine which action to take vis-à-vis those individuals while fully keeping within the established human resources norms. As already reported in DP/2002/CRP.10, the Task Force conducted its work on the basis of the detailed Human Resources Guidelines, developed especially for this purpose, as well as a set of Selection Guidelines. The Human Resources Guidelines served as an easily accessible summary of relevant provisions of the Staff Regulations and Rules and relevant policy circulars issued by UNOPS and UNDP (the actual texts of the regulations, rules and policy circulars represent official, definitive statements on these matters). The Human Resources Guidelines adhered strictly to the relevant United Nations Staff Regulations and Rules and were endorsed by the staff representative bodies. They also served as an aid to staff in understanding the range of staffing issues related to the budgetary reduction exercise. The Selection Guidelines were intended to serve as a procedural tool to be used by a special selection panel established for this purpose when reviewing individual applications for posts that were to be filled in connection with the budgetary reduction exercise.

6. Parallel to the proceedings of the HR Task Force, an Implementation Group conducted the overall review of the implementation of all cost-reduction measures, covering both non-personnel and personnel. The main tasks of the Implementation Group were to: (a) monitor implementation of the provisions of the report of the Executive Group; (b) ensure that Implementation Group decisions were carried out within parameters established by the Executive Group; (c) provide guidance and support to task forces, units and individuals in charge of implementing Implementation Group decisions; and (d) review periodically, update and enforce all relevant budgetary and financial parameters for 2002. The Implementation Group was also directed to devise means to address the income-expenditure gap and follow up on issues identified in the report as requiring further analysis.

7. While preparing for the implementation of the decisions emanating from the recommendations of the Executive Group, a review was undertaken of the overall UNOPS staffing table. This entailed determining those vacant posts that were actual, current and needful of being filled in the best interests of the organization. As a result of this review, vacant posts that had not been budgeted for in 2002 were formally abolished and deleted from the UNOPS staffing table. Upon completion, the list of vacancies was reviewed by the Implementation Group, which further reduced the number of actual vacant posts that were deemed essential and, therefore, required to be filled. In total, 75.5 posts against the administrative budget were abolished. This information was provided in table 3 of DP/2002/CRP.10. The remaining vacant posts that were actual, current and in need of being filled in the best interests of the organization, totaling 21.5, were subsequently advertized.

8. A total of 59 staff members were initially affected in the course of the budgetary reduction exercise. Of these, 12 staff members were placed in new positions through the comprehensive vacancy announcement and selection process of May/June 2002 and three staff members had their letters withdrawn, as a result of subsequent alternative arrangements having been identified. In the final analysis, a total of 44 staff members were affected. Details of the 44 staff in question are reflected in section C of table 1 below. While the overall total of 44 affected staff remains firm, the personal status of each of these individual staff members (i.e. C(i) – C(v) of table 1) may change as the second half of 2002 progresses.

Table 1: summary status – staff

A. Staff initially affected	22	15	9	13	59
B (i). Staff whose letters were withdrawn			2	1	3
B (ii). Staff placed through the vacancy announcement process	5	5	1	1	12
C(i). Staff transferred/selected for projects		4	3		7
C (ii). Staff on special leave without pay		1		1	2
C (iii). Staff placed in another agency	1				1
C (iv). Staff separated effective 30/06/02		2	3	6	11
C (v). Estimated staff to end assignment or appointment with UNOPS effective 30/09/02	16	3		4	23
C. Total	17	10	6	11	44

9. Using pro-forma costs and assuming that, otherwise, these 44 staff members would have been employed by UNOPS during the entire year, it is estimated that savings of some $2.1 million have been generated for 2002 by discontinuing charges against the administrative budget, effective 1 July 2002, in respect of these staff. This corresponds to $4.2 million for an entire year, which does not include cost reductions achieved by the non-renewal or foreshortening of 27 New York-based special service agreement (SSA) contract holders, representing a

cost reduction of some $0.85 million when assuming that they would have otherwise been employed for the entire 2002. This in turn corresponds to $1.35 million for an entire year.

III. Action plan for monitoring figures of human resources savings

10. The foregoing depicts a scenario of managerial vigilance, programmatic responsiveness, budgetary responsibility and overarching commitment to continued organizational viability. These same elements will continue to characterize management at UNOPS during 2003 and beyond.

11. As and when it may again become necessary to consider additional administrative measures so as to pre-empt or respond to a further income-expenditure gap, the Implementation Group will be reconvened. Possible further reduction in both non-personnel and personnel costs will be reviewed by the Implementation Group. If, subsequent to the review of the Implementation Group, decisions are made to further re-dimension personnel levels at UNOPS, the same procedures and guidelines used in the 2002 exercise will continue to be rigorously applied.

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Contingency plan with regard to the operational reserve

I. INTRODUCTION

1. The present report has been prepared as requested by the Executive Board in its decision 2002/13, and provides a contingency plan for the approval of the Executive Board in the event that the operational reserve is unable to absorb administrative expenditures incurred against the UNOPS account for the biennium 2002-2003 that are in excess of income that is generated.

2. The recommendation to develop a contingency plan was made by the Board of Auditors in its report for the biennium 2000-2001 (document DP/2002/CRP.13), arising out of its concerns that, as of June 2002, the proposed UNOPS budget for 2002 left little margin for income surplus by year-end, thereby creating an uncertainty as to the ability of the operational reserve, which is also at a very low level, to absorb a large deficit before the operational reserve could be restored to its prescribed level.

3. The plan takes into consideration the support of the Secretary-General in his note to the Executive Board in January 2002 (DP/2002/CRP.5) "for the continued work of UNOPS as a 'separate and identifiable entity' that is 'self-financing', as originally intended by Member States. It has proven its worth over the years as a provider of services to organizations of the United Nations system for the management and delivery of programmes and projects." . The plan also takes into consideration the number and value of contractual commitments from clients in the form of signed projects in the UNOPS portfolio, and the difficulties that clients could face should the consequences of a depletion of the operational reserve call into issue the ability of UNOPS to meet its project service commitments.

4. The objective of the contingency plan, therefore, is to ensure a sufficient working environment for UNOPS, through receipt of income and/or reduction in expenditure, so that UNOPS may continue to deliver uninterrupted quality service to its existing clients while assessing steps to be taken to remain a going concern and rebuild for the future.

5. As has been documented elsewhere, including in the revised budget estimates for 2002-2003 (DP/2002/33) and in the report on the status of the implementation of the recommendations of the Board of Auditors (DP/2002/35), in 2002 UNOPS has instituted more rigorous and conservative mechanisms to establish business targets and to continuously measure performance. UNOPS reviews its acquisition, delivery and income reports bi-weekly, with a more thorough review undertaken at mid-year, and exercises tight controls on expenditure. The MCC and its working group have continued to meet in order to review the UNOPS position and the preparation of revised budget estimates. The Executive Director is confident that with such mechanisms in place, UNOPS will be able to

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identify early warning signs of a possible deficit, take corrective action to avoid the depletion of the reserve and the need for implementation of the contingency plan, or, in the worst case scenario, call for the implementation of the plan at its earliest possible moment.

6. UNOPS has also implemented in 2002 a structural adjustment exercise in UNOPS, resulting in significant budget reduction to meet new targets while maintaining the necessary resources to ensure quality service delivery to meet those targets.

II. CONTINGENCY PLAN

7. Whenever there is an identification by the Executive Director of UNOPS, either in his periodic reporting to the MCC or on an ad hoc basis, that the level of the operational reserve could go below US$2 million by the year-end closure of accounts, he will inform the Management Coordination Committee (MCC), and through it, the Executive Board. As is indicated below, a number of preparatory steps are already being taken in order to ensure the rapid implementation of the plan, should the need to do so arise.

8. A determination would first be made as to the extent of the actual or expected deficit, the prospects and timing for recovery, and cash requirements during the relevant time period until the deficit would be eliminated. Of particular importance would be the determination as to whether the problem is one of cash flow or a more serious structural nature. Once the nature and extent of the situation is determined, steps would be taken with respect to increases of income or cash, and/or reduction in administrative expenditure, as appropriate.

Steps to increase income or cash

9. UNOPS will first meet all its clients to determine with them how to best continue the delivery of UNOPS services. Primary focus would be to expedite delivery of projects that meet the clients' needs while enabling UNOPS to accelerate income. UNOPS would also seek to review with each client its fee arrangements with a view to determining whether an upward fee adjustment would be in order should the client, by doing so, realize a greater benefit in maintaining its portfolio with UNOPS rather than face a potential return of projects that UNOPS could not otherwise afford to continue to manage. If the problem is one of cash flow, UNOPS and the client may simply agree on payment in advance to UNOPS of its expected fee. UNOPS has indeed already begun preparations for such discussions with certain key clients. The Management Coordination Committee (MCC) has also recognized the importance of the fee issue.

Steps to reduce administrative expenditure

10. Should a determination be made that the problem is one of cash flow, UNOPS would seek deferral of payments to internal creditors who provide support services to UNOPS: UNDP and/or the United Nations Secretariat. UNOPS would attempt to cover any shortfalls with UN internal creditors in order to avoid negatively affecting its external creditors. Any payment plan offered by commercial private sector creditors likely would include a significant financing charge. This form of financing is not contemplated by the Financial Regulations and Rules applicable to UNOPS, which would require an amendment approved by the Executive Board.

11. By way of preparation, this matter has been broached with the MCC, who would need to act in this regard should such financing be required. In the past, when UNIFEM faced a significant contingency for its over-programming of expected resources, the Executive Board permitted UNDP to make cash resources available on a "no cost, no gain" basis, whereby UNDP would receive an amount in addition to its reimbursement to cover its lost opportunity to earn interest on the cash made available to UNIFEM. Similar arrangements could be made for UNOPS, subject to authorization of the Executive Board.

12. UNOPS may also consider requesting other UN organizations to "loan" UNOPS cash on a similar reimbursement of opportunity cost basis. Alternatively, an appeal for voluntary contributions could be made to alleviate the difficulties. These latter options, to be effected, would first have to be approved by the Executive Board as part of a recovery plan.

13. As indicated in paragraph 6 above, UNOPS has been carrying out a structural adjustment in 2002. In implementing the relevant recommendations of the Board of Auditors, as well as drawing upon lessons that can be learned should the planned independent review of the UNOPS business model materialize, UNOPS expects to undertake a thorough portfolio analysis to ensure that its portfolios are cost effective. Should there be a depletion of the operational reserve and its cause remains one of structure, more immediate and serious steps would be taken to control costs in order to align resources with income. In addition, an urgent cost-benefit analysis would be undertaken on key portfolios in order to determine those business lines or activities that would need to be curtailed so that UNOPS operations return to a self-financing level.

14. Staff costs represent the greatest single expenditure for UNOPS. Therefore, any material reduction in administrative budget expenditures would require a further reduction in staff. Unfortunately, the system of staff entitlements makes difficult any short-term benefit from such reductions. At the same time, concerns also arise over the impact further reductions would have on UNOPS' ability to deliver and generate income. Therefore, given the current personnel regime, options for reducing such administrative expenditures are reserved for the gravest contingency of a substantial failure to meet income targets that can only be addressed through structural adjustment. Even then, UNOPS would need to reduce staff resources in a manner that results in least net cost to UNOPS, by balancing cost of staff reduction against loss of income associated with such staff.

III. LESSONS LEARNED

15. As a result of the preparation of the present contingency plan, a number of lessons have been learned. UNOPS will explore these matters over the course of 2002-2003 and obtain advice and guidance of the MCC, the Board of Auditors and others, as appropriate, in order to determine whether any proposals to the Executive Board should be made.

16. While the manner of setting fees for UNOPS services has been highlighted as an area for immediate attention, including most recently by the Board of Auditors, UNOPS also recognises that there is a need to also address the basis for earning and collecting its fees. For virtually all projects, UNOPS earns and collects its fees only upon entering into contractual obligations with providers of goods or services. Should a project be delayed or otherwise suspended through no fault of UNOPS, UNOPS does not collect any fee, often notwithstanding having incurred considerable cost in mobilizing its resources and undertaking a significant amount of work. UNOPS has experienced an increase in such situations as it works more and more in countries in special situations.

17. The situation is worse when a client decides for its convenience (that is, there is no identifiable performance problem on the part of UNOPS) to take back or curtail implementation of a project that had been given to UNOPS. The present system of earning fees is also successful only where there is a steady and predictable amount of business from a client. Recent trend analysis shows that UNOPS no longer benefits from any predictable business stream. The alternative to such a change in determining the moment fees are earned would be for UNOPS to increase fees across the board to cover risks as indicated above – but such an approach would not be in the best interest of all concerned – clients, stakeholders, or UNOPS itself.

18. Another major outcome of the present situation is the identified limitation for UNOPS, though entirely self-financing, to have at its disposal those financial mechanisms necessary for a private-sector-like approach to operate effectively. The Financial Regulations do not permit borrowing nor working capital. UNOPS is therefore severely restricted in its ability to invest in its future. This can be seen, for example, when UNOPS was forced to move to new premises. The operational reserve was required to be used to cover such extraordinary costs, even though it was never meant to be used for such purposes, and the current financial difficulties facing UNOPS at present are largely due to the critically low level of the operational reserve resulting from the financial impact of the relocation.

19. A third important lesson concerns priority implementation of those recommendations of the Board of Auditors that will enable UNOPS to ensure full cost-recovery of its services and consequently maximising those opportunities that are most cost effective while minimizing services that do not stand up to the self-financing principle. However, until such time as UNOPS is in a better position to make such profitability determinations, it is extremely hesitant to take steps especially to stop or otherwise limit its services to present clients, including through the discontinuation of any business line or activity, or by closing offices.

20. UNOPS expects that the planned independent review of UNOPS, the terms of reference for which are found in document DP/2002/36, will also contribute to these important issues.

IV. EXECUTIVE BOARD ACTION

21. The Executive Board may wish to approve the report.

United Nations DP/2002/36

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

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UNOPS: Financial, budgetary and administrative matters

Terms of reference for an independent review of the business model of the United Nations Office for Project Services*

Joint report of the Management Coordination Committee and the United Nations Office for Project Services

Context

1. The United Nations Office for Project Services (UNOPS) was created in 1994 by General Assembly resolution 48/501 as a separate and self-financing entity of the United Nations system, effective 1 January 1995, to act as a service provider to the organizations of the United Nations system (including the Bretton Wood institutions) with no policy mandate of its own.

2. UNOPS offers a broad range of services, from overall project management to the provision of single inputs. In responding flexibly to its clients' demands, UNOPS tailors services to their particular needs, applies methods for attaining cost-effective results and mobilizes diverse implementing partners.

3. At its annual session 2002, the Executive Board of UNDP and UNFPA expressed concern that UNOPS administrative expenditure had not been aligned with its income in the last two years, resulting in an operating deficit of $5.6 million in 2001 and the progressive erosion of its operational reserve to $5 million by the end of 2001, a level in the operational reserve substantially below that required by decision 2001/14. Accordingly, the Executive Board decided to carry out an independent review of the business model of UNOPS, its cost effectiveness and the scope for further expansion of business opportunities for UNOPS within the United Nations system in order to establish a framework for a sustainable UNOPS.

4. The Executive Board requested that the Management Coordination Committee (MCC) and UNOPS submit to the Executive Board for review and approval at its second regular session in September 2002 the draft terms of reference and a timetable for this purpose.

Objective of review

5. The purpose of the review is to formulate a forward-looking strategy for the long-term growth and sustainability of UNOPS to enable it to evolve within the readily evolving market of the United Nations system, including the Bretton

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

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Woods institutions. The review will result in a series of recommendations and action-oriented proposals for aligning its cost and revenue structures and identifying areas of business expansion with cost-effective operating margins.

Scope of review

6. The Secretary-General, in his note to the Executive Board (DP/2002/CRP.5), reaffirmed his support for the work of UNOPS while laying the ground for operational improvements. Document DP/2002/CRP.5, in conjunction, inter alia, with document DP/2002/CRP.4 and Executive Board decision 2002/2 of January 2002, provides the basis for this review. These documents also reiterated fundamental principles that do not require further review.

7. The review will focus on the revenue and cost structures of UNOPS, its operating margins on products and services and its business processes and management tools at hand. Essential elements for consideration by the review include competitiveness, cost-effectiveness and self-financing.

8. *Competitiveness*. This should include a review of the market for products and services currently offered or potentially available from UNOPS, for which there is a growing demand and for which UNOPS is able to provide quality service and cost-effective operating margins. The review should include an assessment of all possible clients within the United Nations who may have a need for such services.

9. *Cost-effectiveness*. The review should identify the extent to which revenue matches the costs of providing products or services. A review of the cost structure should include fixed and variable costs and identify scope for improved cost-effectiveness in terms of business processes and procedures, organizational structure, location and so forth.

10. *Self-financing*. This means providing accurate model(s) for measuring cost recovery in a multi-year programme environment with operational surges and potential lay periods. This should include an assessment of systems in place for monitoring and measuring costs and increasing efficiencies. Scenario-based projections of UNOPS finances and the impact on the operational reserve with details of assumptions behind the projections must be included. Systems, procedures and contractual modalities appropriate for a self-financing entity, which faces fluctuations in demand and which allows UNOPS to moderate volatility by adapting flexibly to operational peaks and troughs, should also be considered. In particular, flexible-staffing arrangements, rules and procedures, which allow UNOPS to expand and contract its capacity rapidly in response to changing demand, should be considered.

Approach

11. The review will take stock of the conclusions and recommendations of the already available decisions, reviews and evaluations.

12. Comparisons should be made with other United Nations, multilateral, bilateral public and private non-subsidized service providers in the areas of project management, including execution, implementation, supervision, loan administration, formulation, advisory and other services, with a view to identifying good practices in terms of flexible, effective and efficient business models and processes.

Outputs

13. The review will build on prior reviews in that it would present a set of recommendations and action-oriented proposals for the strengthening of the UNOPS contribution to the United Nations system for the future. Such recommendations and action proposals may include:

(a) Positioning UNOPS in the United Nations system in order to bring to full fruition the benefits derived from the UNOPS business model;

(b) Mechanisms to enable UNOPS to adjust flexibly to fluctuations in demand through a more adaptable cost structure and efficient business processes;

(c) Identification of areas of potential business growth based on market demand and cost-effective operating margins;

(d) Tools required for change-management from an organizational perspective, including, inter alia, (i) *financial*: definition of self-financing, budget cycle and operational reserve(s); and (ii) *human*: staffing model, incentives and accountability.

Logistics and budget

14. The review team will have access to all decisions, reviews, reports and documentation, including questionnaires and surveys and field mission reports from previous reviews and studies; thus avoiding the need for further comprehensive surveys. To supplement the desk material, the team will have full access to members of the Executive Board, UNOPS staff, clients, beneficiaries and partners. The review team will work under the auspices and guidance of the MCC.

15. The duration of the review is estimated at 90 days. The core team will be comprised of three experts in international public administration/service delivery with specific experience in public sector management. One of the team members should be intimately familiar with the development cooperation market within the United Nations system. The team should also have familiarity with peacekeeping and humanitarian activities of the United Nations system. The team should be able to draw on short-term consultancies, not to exceed 30 working days in total, of specialized expertise in accounting or other disciplines as required. The total number of working days, therefore, is budgeted at 120, which would represent approximately $200 000.

16. The actual cost of the review will depend on team composition and overall approach to the review (inclusive or exclusive of field visits and so forth). No budgetary allocation is foreseen in the UNOPS budget approved by the Executive Board at its annual session 2002. Members of the Executive Board may wish to consider voluntary contributions to finance the review.

United Nations DP/2002/37

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Country programmes and related matters

Extension of the first country cooperation framework for Sierra Leone

Note by the Administrator

Period of extension: 1 January 2003 to 31 December 2003

Summary

Using the streamlined format introduced at the first regular session of the Executive Board in January 2002, this note contains information on the extension of country cooperation frameworks requested since the last meeting of the Board. Only the Government of Sierra Leone has made such a request.

The Administrator wishes to inform the Executive Board that he has approved the extension of the first country cooperation framework for Sierra Leone for a period of one year, from 1 January 2003 to 31 December 2003. The attached table summarises the reasons given for the CCF extension.

The Executive Board may wish to take note of this extension of the CCF.

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Extensions of CCFs approved by the Administrator since the Executive Board meeting in June 2002

Country	*Original period of CCF*	*Period of extension*	*Reason and explanation*		
			United Nations harmonization	*In-country political development*	*Implementation and/or other issues*
Sierra Leone	1998-2002	2003	Expected to begin in January 2004.		To provide more time to consolidate progress and results achieved in rebuilding the country's development capacity after the cessation of the war. This extension will also enable the new country programme outline to be prepared in line with the priorities of the new Government, which took office following elections in May 2002.